

SMALL AND MEDIUM BUSINESS IN KAZAKHSTAN

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ABSTRACT

In the majority of the world countries the growth of small and medium business is of great importance for development of the whole economy and increase of its efficiency. Small and medium enterprises are the base of economy, and in the perspective it is the steadiest part, only with development of small and medium business the construction of stable functioning market economy is possible.

Small and medium business (SMB) is a mobile and productive sector of economy. It really creates a considerable share of gross domestic product and the most part of the working population is involved in it. It is important not only for industrially developed states, but also for the countries with a transitional economy.

The role of SMB is great not only by quantity, but also by function, otherwise, by those problems that are solved by SMB in economy, namely - middle class formation - the main guarantor of political stability in a democratic society, creation of new workplaces with rather low capital expenses, liquidation of monopoly of manufacturers, creation of the competitive environment.

Support of SMB is the support of market, and a competitive economy as a whole. The sector of small and medium business is the tool of regulation of the unemployment that are important social and economic issues in economy. Employment issues, possibility of their solutions, including by development of small business, are rather actual as the employment problem is rather sharp in the market economy. The occupation level appreciably defines the volume of cumulative labour fund that the country has, and accordingly defines the size of the total domestic product that the national economy can conduct.

During the speech at the official meeting devoted to the 17th anniversary of independence declaration in the Republic of Kazakhstan the President of the Republic, Nazarbaev N.A. said the following: "We should increase essentially a share of small and medium business in the economy structure bringing it to the level of medium developed European countries. And then it will be easier to resist to the next crisis cycles. For every Kazakhstan person there should be possibilities to perform new business, to start new business or to expand the field of activity".

Now in Strategy of industrial and innovative development till 2015, the state policy of support and development of small and medium business is considered and the new ideology of mutual relations of the state and business is built by the main objective which increases the competitiveness of the country.

These words prove the urgency of the effective development of SMB and Kazakhstan at the modern stage.

The goal of the research is to analyze the condition of small and medium business in Kazakhstan, to study the issues and to reveal the perspectives of small and medium business development.

For the solution of the arisen goal it is necessary to define the objectives of the research:

- To reveal the economic essence, meaning and regulating of SMB entities in the Republic of Kazakhstan;

- To analyze the condition and development of SMB field in Kazakhstan;
- To identify the main issues of SMB development and the ways of solutions considering the experience of foreign countries.

The subject of the research is the sector of SMB in Kazakhstan.

The methodological and theoretical basis of the research was made by proceedings of Kazakhstan and foreign scientists in the field of economic theory, taxes and the taxation, macroeconomic, micro-economics, finance and crediting, state regulation and economic statistics.

The informational base of the research was made up by the system of regulatory legal acts of the legislation of the Republic of Kazakhstan regarding business, state regulation of small and medium business, data of Statistic Agency of the Republic of Kazakhstan, reports of the Government of the Republic on a current status of business, research of International Currency Fund in the field of small and medium business in the Republic of Kazakhstan, and also government programs of business support. The information base for tables, diagrams and graphs in the text of the thesis is the statistical data of Ministry of Finance of the Republic of Kazakhstan and Kazakhstan Statistic Agency.

KEYWORDS: Business, Market, Economy, Financial System, Industrial, Commercial

INTRODUCTION

Stage by stage Kazakhstan overcomes a difficult and inconsistent way of transformation of economy in the course of its formation as sovereign state: the former economic system is completely dismantled. Liberalizations of economy and structure transformations are consistently carried out, and development of private business is performed.

One of the factors characterizing the entrepreneurship climate in the country is the level of development of small and medium business that creates new workplaces and promotes growth of social welfare of the population.

By estimations of experts the Republic of Kazakhstan has achieved considerable successes in activization of SMB development. The enterprises and the organizations of SMB of the Republic make up 70 % of all goods and services. Thus, the country leaders aspire to make SMB development even more active. The standard legal base of development and the state support of small business as a whole are generated in the Republic.

World experience testifies that small and medium business development can bring the contribution to the decision of such important problems as unemployment, poverty, manufacture development, expansion of the field of taxable base, perfection of the consumer market and social sphere, middle class formation that is the guarantor of internal political stability of the society.

However, there is a number of the factors worsening the entrepreneurship climate and they demand steadfast attention from the state bodies and legislative fastening.

The analysis of SMB sector shows that *weak sides* have not changed practically since 2000. They are the following:

- Absence of accurately expressed practical measures on carrying out of the support policy in SMB and professional training;
- Discrepancy of legislative and statutory acts;
- Low solvency of the population;

- Branch imbalance and low level of specialization of SMB and quality of production;
- Access problems to financial sources - absence of the starting capital, the effective mortgaging and insurance mechanism;
- Absence of knowledge and skills in market conditions, lack of legal information;
- Corruption, extortion;
- The rigid tax and customs policy, especially in administration questions;
- A hyper sensibility of small business to economic changes;
- Insufficient level of supply with information.

Let us consider *the problem of SMB crediting* in the Republic of Kazakhstan.

First of all, this problem is connected with low investment appeal of small and medium business that is caused by its unstable financial status, absence of the forecast of solvent demand for their production, low competitiveness of made production and absence of management of risks.

Banks owing to low guaranty of small business are compelled to transfer risk cost on credits by interest rate increase of loans.

Besides, insufficient funds level of small business enterprises does not promote increase of economic efficiency of small business sector because of its low labour productivity and constrains crediting of small business under the security of fixed assets. For this reason throughout a number of years trading-intermediary activity for businessmen remains a unique accessible method of accumulation of own financial assets. The income of small business on goods realization and services in trade sphere makes more than 60 % from total amount of the income received by them.

However, even simple transfer of the credit resources received from the international financial institutions by the following chain: international financial organization - the authorized state body - bank of the second level - the businessman, and means the increase in the interest rate at 4-7 % at each stage. All these percent and other “unprofitable” expenses connected with reception of the credit lead to the increase of prices for production of the Kazakhstan enterprises not less than by one third.

It is supposed that maintenance of financial-crediting and investment support of small business will be based on development of specialized institutes and introduction level schemes of financial-credit maintenance of target groups of small business with an establishment of comprehensible to them conditions and crediting procedures. The base of this specified scheme is the system of micro crediting for enterprise initiatives of the least provided citizens and beginner businessmen, including the village, and carried out both on commercial, and on granting basis with simplification of technical procedures of registration of the credit acts. During 2009 - 2010 some changes and the additions connected with the further decrease of tax burden for small businesses were made in the Tax Code of the Republic of Kazakhstan. So, for today rather progressive measures directed on perfection of system of tax regulation of activity of small enterprises are provided in the Tax Code of the Republic of Kazakhstan. Most important of them is the differentiated approach to granting of the preferential mode of small business taxation to subjects depending on the organizational and legal form, income level, and also introduction of a special mode for agriculture businesses.

So, the separate section of the Tax Code of the Republic of Kazakhstan provides the special tax modes essentially reducing tax loading and simplifying system of the taxation, including concerning entities of small business, country farms, legal bodies - manufacturers of agricultural products. The special tax mode for small business entities is defined on the basis of single coupons, the patent and the simplified declaration.

However, the efforts accepted recently from the state on creation of standard and legal base of regulation of small business, in particular in questions of tax regulation did not solve the basic problems on creation of a favorable climate for this sector of economy. Tax administration on the contrary was considerably amplified. Taxes should stimulate enterprise activity. Simultaneously everyone wishing to begin the business should receive equal starting possibilities for this purpose in our country. For this purpose it is necessary to achieve introduction of tax privileges system for a small business, especially in depressive, ecologically unsuccessful regions, in the form of clearing of payment of the corporate tax for the period from 3 till 5 years for newly created manufactures.

Problems of administrative barriers:

- Regular checks are not regulated by frequency;
- Possibility of continuous increase of time for documents check;
- Lack of objectivetiming;
- Restriction of periods of single coupons validity in the markets till 9 days;
- High administrative penalties for tax laws infringement.

Solutions

- Regular checks to be regulated strictly by frequency of checks (not often than 1 time a quarter);
- The arrangement of documents check for small businesses not to exceed 5 days;
- Timing to be conducted only within the limits of the accounting period;
- Restrictions on terms of single coupons application to be excluded;
- The diligent tax bearer (definition and privileges);
- Administrative barriers in customs and their solutions:
- **The Customs Border** - to be fixed legislatively;
- **Storage Problems** - participant rights to be defined legislatively.
- **Market Monopolization** - to eliminate the barriers generating monopolization (excessive bank guarantees, the coordination with numerous state bodies);
- **Registration of Foreigners** - to liquidate permissive functions of system of the Ministry of Internal Affairs on registration of foreigners and pass this procedure of the check point;
- **Liberalization** - the principle «what is not forbidden by the law is authorized» is not applicable for state bodies;
- **Customs Cost** - to eliminate intermediaries in definition of customs cost.
- **The Code of Laws** - to level the range of administrative barriers in all laws.

Consequences of Administrative Barriers can be expressed the following: risk of increase in penalties in case of the tax offence; artificial deterioration of the financial situation; direct infringement of the rights; additional financial pressure, the bankruptcy factor; the compelled suspension of activity of the enterprise; constraint to bribery; the compelled infringement of tax laws; law infringement; administrative penalties; the bankruptcy factor; development of shadow business; corruption growth; social consequences. Implementation of the above stated measures assumes activation of behavior of managing subjects that switches on counteraction to illegal intervention of the state bodies in economic activities, suppressions of attempts of creation of administrative barriers at level of separate departments and regions, that is increase of social responsibility of business.

By request of Commercial and Industrial Chamber RK and with granting support of BAS EBRD program, the analytical department of Business Resource Media Holding carried out *the research “Small and medium business of Kazakhstan: modern situation and perspective directions of growth”*. Within the limits of this project 2 thousand businessmen across all Kazakhstan were interrogated, and also a series of deep interviews with experts (by known economists, representatives of business associations, state bodies) was written down. In particular, research group was interested in those factors that most of all, according to respondents, make constrain to development of domestic business. For today, according to the opinion of research participants, *the rating of problems* looks as follows (figure 1).

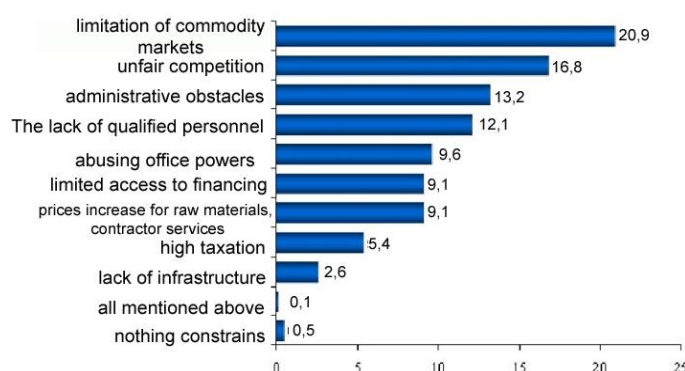


Figure 1: Rating of Problems that Constrain Entrepreneurship Development, %

Limitation of Commodity Markets as the basic problem was noted by businessmen of Zhambyl (45,3 %), Northern Kazakhstan (44,9 %), Eastern Kazakhstan (43 %), Aktyubinsk (40 %) and Kyzylorda (40 %) regions, and also in the capital (40,7 %). Amongst the branches of production the mentioned problem was also named by managers of trading companies and public catering establishments (38,9 %), farming (36,1 %), spheres of services (37 %) and medical institutions (36,7 %). Most likely that here it is a matter of low purchasing capacity of the population.

The second place by number of answers in this rating is occupied **with unfair competition**. Most of all, this is a complain of such branches as granting of services (35,3 %), transport transportations and telecommunication service (30,9 %), civil works (29,5 %), and also trade and public catering (28,0 %). The considerable part of heads of small and medium business pays attention to the facts of an unfair competition in Western Kazakhstan (46 %), Kostanay (45, 2 %), Mangystau (41, 2 %), Atyrau (37, 1 %) and Almaty (36, 1 %) regions.

The third of the most significant for SMB problems is finished **by administrative obstacles**. They are considered as the basic problem in business for 13,2 % of participants of the research. Especially strongly they disturb businessmen of Almaty (37 %), Kostanay (32, 9 %), Northern Kazakhstan (28, 6 %) and Karaganda (26, 7 %) regions. More often than others the attention to administrative obstacles is paid in the answers of the companies of the food-processing industry, here this indicator makes 37, 5 %, and is in 3 times above general indicator in the Republic.

The Lack of Qualified Personnel is the most important problem in light industry (37,5 %). The general republican indicator of this value makes 12, 1 %. Most of all from the lack of qualified personnel they suffer in Kyzylorda region area where this problem was specified by 43, 3 % of participants of a telephone survey.

At the second level of problems is corruption (9, 6 %), the limited access to financial resources (9,1 %), and also a rise in prices for raw materials, accessories, services of contractors (9,1 %).

It is necessary to pay attention, that **abusing office powers**, the facts of corruption activity as the basic problem for business were noted by businessmen of Almaty (34,2 %), Southern Kazakhstan (22,7 %), Mangystaus (20,6 %), Western Kazakhstan (18,1 %) and Karaganda (17,1 %) regions. This problem is urgent for managers of construction organisations (27,4 %), realtor companies (17,4 %) and light industry enterprises (18,8 %). Lack of access to financial resources is still an urgent problem for managers of agricultural enterprises (30, 3 %) and the companies making foodstuff (22,5 %). Most sharply it appears to be in Kostanay (28, 8 %) and Akmolinsk (28, 1 %) regions. The value of this indicator is also high in the answers of the respondents representing transport companies and enterprises rendering telecommunication service (21,8 %).

The rise in prices for raw materials, accessories and services of contractors are marked first of all by managers of farming entities (28,9 %). Amongst the regions this factor is specified by businessmen in Kostanay (27,4 %) and Northern Kazakhstan (26,5 %) regions. The influence of this factor is also observed in the answers of representatives of the food-processing industry (40 %), agriculture (31 %) and light industry (25 %).

The above-stated allows to draw a conclusion that problems facing to small business and interfering its development in the country have steady character and all efforts accepted till now to solve of them were not crowned with success.

In order to understand the reasons of the basic problems of small and medium business more deeply and in detail, as well as to reveal the ways of their minimisation, it is necessary to consider the experience of leading foreign countries on the issue of SMB development.

In spite of the fact that the most part of scientific potential is concentrated to the large companies, small and moderate-sized firms on a wide range of production more often begin commercialization of the new goods. The research of 500 considerable technological innovations and the inventions registered throughout last twentieth anniversary in Germany and the USA, found out the important role of small firms even in an embodiment during a life of essential technological innovations. Last decade in many countries the tendency amplified to association of the small enterprises on the basis of specialisation and manufacture cooperation into large branch structures which now make great volumes of various production, including high technical and technological level, and successfully enough compete in the markets to the large companies and monopolies. Activity of small enterprises in less developed areas of Western European countries is a basis of all their social and economic life and the solving precondition of their further economic development.

At the same time, the small enterprises are noted with higher efficiency of work as small firms with smaller expenses satisfy requirements for scarce kinds of the goods and services on the basis of working out of local sources (raw materials) and provide thus the big employment. They increase the sizes of receipts in municipal budgets, stimulate NTP, and carry out other important functions for the economy. At the present stage the increase of a role of the enterprises of a small business in economy of Germany, the USA and other developed countries is not accidental, but the necessary law called by a course of history, and requirements which arose in development of productive forces and technologies.

In all foreign countries with normally developed market economy there is **a powerful state support of SMB**. For example, in Germany grants to small enterprises make about 4 billion deutschmarks annually. In the congress of the USA small business problems occupy two committees. It is headed by Administration on small business affairs. In each staff there are regional branches up to 30-40 persons. The Administration purpose is small business support at the state level.

In Japan where the quantity of small enterprises is especially high, those entities are specially allocated which cannot develop. Small business development is considered as powerful economic and social **counteraction to poverty and terrorism**. In the developing states small business is considered as determinative and capable to make lower the sharpness of such social problems as poverty and unemployment (such countries as India, Albania, Brazil). Small and average business in the majority of the leading countries promoted **political and social and economic stabilisation**, middle class creation (in France, Great Britain, Belgium, Germany, Canada, Spain) to recession overcoming (in Israel, the USA), to creation of the new markets (in Mexico, Canada, Singapore, Japan), to consecutive carrying out of reforms (in China, Poland, Czech Republic, Hungary, Slovakia). Systems of support and small business development in the leading countries were held in updating and self-control phase. Certainly, the result is defined not only by growth of number of SMB entities, but by development of new technologies and by solved social problems on increase in quantity of the youth, female and individual enterprises, and also for support of small and average exporters. In these countries the system of banks, funds, innovative centres and scientific parks working on SMB entities development is created. By quantity of SMB entities the leading position is occupied by the United States of America (19 300 thousand), then Japan (6450 thousand), there is Italy on the third place (3 920 thousand) and further on the descending: Great Britain (2 630 thousand), Germany (2 290 thousand), France (1 980 thousand). For comparison: the share of SMB in an aggregate number occupied in Japan makes 78 %, the share of SMB in gross domestic product is 52-55 %, the share of SMB in an aggregate number occupied in Italy makes 73 %, and the share of SMB in gross domestic product is 57-60 %. At the same time, proceeding from table data, it is possible to ascertain that the greatest quantity occupied in SMB is in the USA (70,2 million people) and Japan (39,5 million people). Foreign experience of some countries such as, for example, the USA, Canada, Italy, Argentina, Brazil rather visually shows how it is possible to combine effectively the simplified system of the taxation for individual businessmen and family business with system of the taxation for certain kinds of activity (trade, autorefuellings, etc.) in the form of the uniform tax to the made income.

It is also important to consider experience of the developed countries in a **special purpose character of support of small businessmen with accent on beginners**. In the international practice they allocate some categories of the people aspiring to be engaged in business and beginning the business. The first category is beginning businessmen (the citizens having abilities and desire to be engaged in such activity). Here the attention of bodies of support is directed, first of all, on youth, the military men transferred to the reserve, the former officials, engineers who remain without job after closing of large manufactures. The second category of businessmen is those who already began the business and had small property. However, family enterprise or small enterprise require expansion or upgrading, and sometimes qualitative updating of manufacture (for example, diversification) plus certain financial and crediting resources. Besides, their availability is not enough as it requires creation of guarantees system with participation of the state, banks and funds as, for example, it is accepted in Austria. In the Republic of Kazakhstan small and medium-sized business is considered to be such an activity in all branches of economy that is performed by physical bodies registered as entrepreneurs as well as entities of any business form that are identified with stabilized quality and quantity performances (legal bodies).

Entrepreneurship (business) characterizes business relationship between people and, in particular, between the participants of business. A person that has any business is a businessman. Business is not considered to be any activity but economy activity. Business is such an economy activity in which some material benefits and services are performed. A businessman during its activity pursues a certain egoistic interest that is profit earning. It can be said with confidence that business is an economy activity of the person aimed to the profit earning and gains by production of material benefits or services.

Another feature of the entrepreneurship is in its belonging to relatively short-termed, tactical ways of acting. The entrepreneurship in its narrow meaning of the word does not directly belong to economy strategy that is accounted for the long-term period. However, entrepreneurship ideas and separate appearing of entrepreneurship may be presented in strategic projects. Thus, for example, if a long-term project is aimed mainly to profit earning, conjugated with risk and responsibility and not based on trivial ideas, it legally can be considered as an entrepreneurship project. However, in most of the cases entrepreneurship actions are tend to be put into relatively short-term deals.

Entrepreneurship activity is the totality of consecutive or parallel deals and each of those is limited by rather short and strict time interval. The deal is the main brick out of which the building of entrepreneurship is constructed.

At this definition, the deal is understood as cooperation of two or more business entities in order to earn mutual profit based on a written or oral agreement.

The major economy agent of the market economy is a firm. **A firm** is an organization that owns one or more entities and uses some resources for the production of the goods or services in order to gain profit. Different features are taken into consideration for the classification of the firms. The main two of them are patterns of ownership and the size of the firm.

There are two types of entrepreneurship: **non-commercial** and **commercial**.

Non-Commercial Entrepreneurship

This considered to be the activity of charitable foundations, cultural and educating activity, sponsorship. The aim of such entrepreneurship is achieving social effect. This entrepreneurship activity is directed to the compensating of market expenditures, evening-out (leveling) of market expenditures such as social inequality and social injustice. The effect may be more scaled from the positions of the strategic valuation. In the modern market the effect of image, name or brand is highly valued even though it is difficult to be measured in numbers. Besides, there is a direct link between sponsorship and advertising. In economic literature such activity is seldom related to entrepreneurship.

Commercial Entrepreneurship and Business is an activity directed to earning profit and related to risk.

Entrepreneurship is characterized by mandatory presence of innovation moment — whether it is production of new goods, changing of the activity profile or foundation of the new entity. The new system of management in production, quality, implementation of new methods of production arrangements of new technologies — these are also innovation moments.

Entrepreneurship as a specific form of the economic activity can be performed both in governmental or private sector of economy. Due to this they separate:

- **Government enterprise;**

- **Private enterprise.**

Government Enterprise is a form of economy activity from the name of the enterprise that was established by:

- Government bodies that are authorized to manage governmental property;
- Local government bodies (municipal undertaking).

The ownership of such enterprises is the form of splitting of the part of governmental or municipal property, part of budget means and other resources. A very important characteristic of such enterprises is that they fit with their liabilities only by the property that is in their ownership (neither government fit with their liabilities or themselves fit with the liabilities of the government).

Private Enterprise is a form of economy activity performance from the name of the entity (if it is registered as an entity) or from the name of entrepreneur (if such activity is performed without workforce recruiting, in the form of individual labour activity).

Of course, each of these types — government and private enterprise — has its own features but the main principals of their realization match in many parts. In both cases the realization as such activity supposed initiative, responsibility, innovation method, drive for maximization of the profit. The typology of the both enterprises is also similar.

Different types of entrepreneurship are identified depending on the content of entrepreneurship activity and its connection with the main stages of reproducing process: **industrial, commercial, financial, intermediate, and insuring**.

Entrepreneurship is **industrial** if the entrepreneur directly produces some products, goods, services, works, information, intellectual values for further sale to the customers and trade companies using labour means as factors. Thus, the function of the production in this type of entrepreneurship is the major identifying function.

In the type of **commercial** entrepreneurship the entrepreneur has a role of trader selling finished goods to the customers that were purchased by the entrepreneur from other bodies. In such entrepreneurship the profit is formed by selling the goods at the price that exceeds the acquisition price.

Financial entrepreneurship is a specific form of the commercial entrepreneurship where money and equities sold to the customer or granted as a credit by the entrepreneur are the subject of buying and selling.

Intermediate entrepreneurship is the entrepreneurship where the entrepreneur does not produce or sell any goods but has a role of agent, a link in the process of goods exchange and in commodity and money transactions. The main objective and the subject of there are two types of entrepreneurship: **non-commercial** and **commercial**.

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Manpower of medium-size enterprise shall be not less than limiting levels for small enterprises but not greater than 500 persons. According to the legislation physical bodies conducting entrepreneurial activity without establishing a legal body (with hired personnel or without ones) also fall in the category of small enterprises. Annual average manpower of small entrepreneurship is specified with account of all personnel including contractually employed and on the basis of contracting agreement, part-time personnel, personnel of branches and other separate subdivisions of the legal body. Farm enterprises are specified in compliance with legislation of rustic and farm enterprises. Bodies conducting several types of activities fall in the category of activity which takes the biggest part in annual turnover or cumulative annual revenue.

More demonstrably attributes of enterprise size are shown in Table 1.

Thereby after study of theoretic aspects and essence of small and medium entrepreneurship it is possible to come to the following conclusion:

Table 1: Quality Characteristics of the Firm Size

	Small Enterprise	Medium-Size Enterprise
Objectives	to be specified in accordance with market, intuitively, with improvisations	to be corrected in accordance with market and strategy, intuitively
Management	Personal, authoritarian, direct	Personal, consultations with key business partners, experts
Product	No planning, no marketing researches	Short-term planning without marketing researches

	Small Enterprise	Medium-Size Enterprise
Personnel	<u>Personal relationships</u> : “boss-employee” based on principle of “family community”, high degree of motivation and engagement, no Trade Union, no Labour Collective Council	<u>Personal relationships</u> : “employer - employees collective”, some degree of engagement, small influence of Trade Unions, no Labour Collective Council
Finance	Family, bank	Family, bank

In the Republic of Kazakhstan the notion “small and medium entrepreneurship” means such a type of activity in all branches of economy which is conducted by physical bodies registered as entrepreneurs as well as enterprises of any legal organizational form that are defined by stable qualitative and quantitative indexes.

Foreign Trade Turnover of Kazakhstan considering mutual trade with Russia and Belorussia in January-December 2010 by customs statistics data is 89,0 mlrd.USD and in comparison with January-December 2009 increased by 24,3% including export 59,2 mlrd. USD (37,1% increase), import – 29,7 mlrd.USD (4,8% increase).

In January-December 2010 67,5 mln. tones of oil and gas condensate were exported, that is by 0,3% more than in the same period of 2009, in value terms the export made up 37 mlrd. USD and increase by 1,4 times.

Consumer Price Index in January 2011 made up 101, 7% in comparison with January 2010. The prices for provisions increased by 3, 0%, for non-provisions by 0,5% and for services – by 1,2%.The prices of manufacturers in January 2011 increased by 19,7% in comparison with January 2010.

As per World Bank data, the world price for Brent oil made up 96, 3 USD/barrel in January 2011 (in January 2010 it was 76,4 USD/barrel).

Unemployment in January 2011 was 486, 3 thousand people. The level of unemployment reached 5, 7% to the number of economically active population. The number of persons registered in employment authorities as unemployed at the end of January 2011 was 44, 1 thousand of people, i.e. 0, 5% to the number of economically active population. The level of hidden unemployment made up 0, 6% of the number of economically active population.

- **Nominal cash earnings per person** in January-December 2010 made up 463 thousand KZT. The increase in comparison with January-December 2009 made up 13, 9% by nominal and 6,3% by real cash earnings.
- **Average monthly nominal wage** in January-December 2010 was 77, 5 thousand tenge. The increase to January-December 2009 made up 14, 6%. The rate of real wage to January-December 2009 increased by 7, 0%.

Formation of small business in the Republic is one of priorities of economic policy of the state since first days of economic reforms. The enterprise class acts as the integral attribute of market economy as the independent subject of economic relations. The most part of businessmen is considered as so-called middle class that provides stability for the economy of the state based on market system of managing as well as influences political processes in a society and does not allow deviating from liberal and market values.

In Kazakhstan the transition to the market has occurred spontaneously without preparation. It was the period of post-socialistic “economic romanticism” when the ruling elite adhered to the opinion of group of famous Soviet scientists-economists and politicians under the guidance of academician Shatalov B. and the leader of “Yabloko” movement Yavlinsky G. about “forced and lightning” transition to the market during 1,5-2 years. They considered that overcoming of social and economic crisis and economy reforming can be spent synchronously and rapidly by standard

model. At the initial stage of transition to the market radical reforms were held without any serious theoretical and methodological preparation. The economic policy was developed in deadlines by narrow circle of experts and was mainly based on the experience of the developed market countries.

Let us analyse *crediting of small and medium business* in the Republic of Kazakhstan.

The results of regular inspection “The status and the forecast of parameters of the credit market” held by National Bank of the Republic of Kazakhstan in October, 2010 in general testifies some restoration of corporate sector crediting: insignificant growth of demand for credit resources from the business and accompanied by insignificant softening of a credit policy of banks is marked. The revival of the retail market of crediting, an event mainly taking place in the field of consumer loans proceeds is in process. The most significant risk factor for bank sector is a high level of the delayed debts.

In the market of crediting of corporate sector the surveyed period was characterized by insignificant growth of demand for credit resources from corporate sector (Figure 2). Thus, the share of the respondents that declared increase of demand made up 42 % from the total of respondents while more than 50 % of respondents testified the demand invariance. The most demanded are short-term credits for replenishment of current assets, and also the long-term credits involved with business entities for refinancing of existing debt.

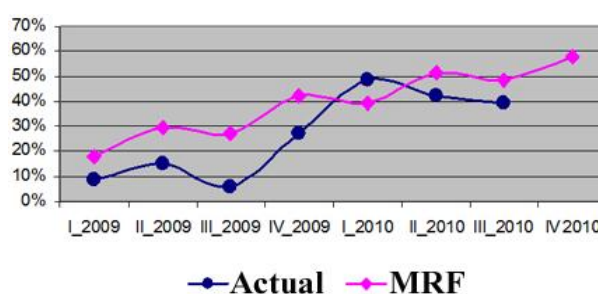
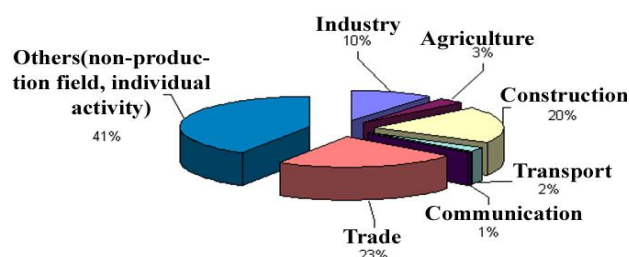


Figure 2: Changing of Demand for Credit Resources

By observations of the banks, the prevailing part of the large enterprises still very cautiously approaches to new investment projects that are the reason of low demand for the long-term credits involved for implementation of investment projects. It is necessary to notice, that the basic sources of financing of large projects (by bank observations) are own funds of the large companies. In general, banks notify insignificant growth of demand in the 4th quarter 2010: about 61 % of respondents expect the demand increase, while 36 % assume that it remains invariable.

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Source: NBRK Data

Figure 3: Bank Credits by Economy Branches

As it can be seen, when receiving the credits, *an exclusive position is occupied by trading enterprises* due to the rapid turnover of financial assets, and also non-productive field of economy and the individual activity classified in this case as “others”. The marked high share of credits in construction area is mostly connected to the credits that were given out during previous years and remain outstanding as of present time.

Such fields as agriculture, transport and communication practically are not financed by banks in connection with their slow payback, and this in turn causes necessity of financing by government.

If to highlight of the enterprise only small and medium business entities out of presented fields of economy, it is necessary to notice that its financing is also not considerable enough yet. Within last two years the share of credits to small business in total amount of credits of banks to economy made up 20-21 %. Thus, the basic part of them is made by short-term credits in national currency.

Thus, in spite of the fact that crediting of SMB by commercial banks since 2001 has increased in 14 times, its share in total amount of given out SLB credits has decreased from 26 % to 20 %.

The relation of SLB credits for SMB to GDP in Kazakhstan makes more than 10 %, in the USA such indicator reaches 20 %, in the EU countries - 30 %, in Japan - 35 %.

Until recent time interest rates of commercial banks under SMB credits remain high and on the average make up 11-13 %, on small credits interest rates increase up to 18-20 %.

Comparison of SLB credits that were given out from a current credit portfolio of banks at the end of the period shows that the share of short-term credits for current assets (which term is less than 1 year) in SLB credit portfolio remains high, i.e. on updating of the basic funds for expansion of production SLB credits are given to SMB in less volume.

Thus, the development of small and medium business in Kazakhstan which can be divided into four stages was highlighted above, and each of the stages has its own distinctive features. At present time small and medium business in Kazakhstan is developing by rapid rates.

CONCLUSIONS

Thus, in the process of the research, the theoretical aspects of SMB and legislation base of SMB functioning in the Republic of Kazakhstan were studied.

Small and medium business in the Republic of Kazakhstan is understood as such kind of activity in all branches of economy that is carried out by the physical persons registered as businessmen, and also the enterprises of any organizational and legal form that is defined by steady qualitative and quantity indicators.

The President of the Republic of Kazakhstan N. A. Nazarbaev always paid great attention and support for business formation and development.

The importance of small entrepreneurship for efficient market system development in the Republic is governed by its role as structure-forming factor which provides the following:

- Employment of population entirety;
- Development of competitive environment;
- Saturation of Market with merchandise and services as well as reappearance of folk trades;

- Strengthening of economic basis of local authorities;
- Development of villages, small and medium-sized towns.

Dorozhnyi service Ltd. chose the simplified mode of the taxation, that means that the entity designs a simplified tax declaration. The features of this mode are highlighted in the second chapter of the thesis with the appropriate examples.

For the comparison, the taxation mode of Absolute Kazakhstan Neon Ltd was also studied. This entity performs the calculations with budget by corporate and social taxes in the generally established mode.

The advantages and shortcomings of taxation by a simplified tax declaration and by corporate and social taxes in the generally established mode are presented in the second chapter of the research.

Having studied the basic aspects of development and support of business in the world countries it is possible to highlight the basic ways of minimization of SMB problems in the Republic of Kazakhstan:

- To change the tax policy concerning small business: to create a favorable tax climate for small business; to publish all regulatory legal acts concerning the taxation, to provide free distribution of forms of the tax reporting; to develop effective system of tax privileges. Tax privileges should be given to the subjects of small business located in depressive, ecologically unsuccessful regions, and also engaged in innovative activity in the form of clearing of the corporate tax for the term from 3 till 5 years; to enter the standard defining that changes and additions in the tax reporting can be accepted not later than December, 1st of the current year and are installed not earlier than January, 1st of the next year; to simplify the tax account and the tax reporting for subjects of small business as much as possible.
- To provide changes in the business development policy: to establish the proved quantitative and qualitative purposes for small business sector in the general problem of economic, social and regional development and to provide their achievement; to provide conformity of volume of the state financial help and to the problems put in the Government program on support and development of business; to oblige local authorities to assist small enterprises according to local requirements within the limits of the accepted programs. To establish public control of programs implementation; to undertake all needful measures for maintenance of the appropriate and regular analysis of SMB sector status, performance of SMB development programs and definition of end results conformity of these programs implementation to the planned purposes; to develop an effective mechanism of SMB entities cooperation with large enterprises.
- To fix leadership of the law over all acts and to lower supervisory and control pressure on SMB: to harmonise laws and regulatory legal acts for the purpose of stimulation of business and simplification of bureaucratic procedures; to lower quantity of the state bodies which are carrying out supervisory and control functions concerning small and medium business. The state bodies that are carrying out supervisory and control functions should have the concrete plan on a decrease in regulating procedures and effective execution of the antimonopoly law; to enter elements of the electronic government system for carrying out registration, licence and the administrative procedures concerning small enterprises.
- To reconsider financial tools for the small enterprises especially required in the beginning of enterprise activity for formation of the starting capital: to eliminate the barriers to businessmen access to financing sources through the solution of a mortgaging problem and decrease in bank percent on the loans given to SMB; to create enough of funds of support of small business; to develop infrastructures of financial services for small business, such as

leasing, venture capital, credit associations, micro crediting organizations, franchising and etc.

- To render consulting services for small enterprises: to create an infrastructure on granting of consulting services; to provide availability of consulting services for beginning businessmen through system of financing at the expense of budgetary funds; to provide coordination of infrastructure elements for rendering services in various issues of business support and development for the purpose of the full complex of consulting services in sphere of business on the basis of the revealed requirements of small enterprises.
- To develop small business infrastructure: to create the complete and branched out network of the centres for small business, business incubators, industrial parks, the educational centres, the information and exhibition centres, etc. that are capable to give all necessary complex of services at the level of the Republican and local region for SMB entities, especially for beginners; to organize training and preparation of the qualified administrative personnel and workers of the infrastructure that are capable to provide steady functioning of these centres and to render the qualified help to SMB entities.

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